

# TAX, TAX, THE MUSICAL FRUIT – THE MORE YA’ EAT, THE MORE YA’ .....

Stephen L. Bakke – August 19, 2011

## I’m Tired

I’m tired of the nuance and confusion caused by the tax/revenue discussion.

The democrats state they want to raise taxes on the “rich” as a significant part of the plan to reduce our national debt. This is misleading, wrong, disingenuous, and really getting on my nerves! Then they chose to change the lexicon from “taxes” to “revenue.”

The republicans say they won’t allow any increase in taxes but when questioned, they state they are “all for” tax reform, broadening the base, and increasing revenue. The democrats dismiss these republican “tax reform” discussions, but condone “reform” discussions from “their own.”

As Saul Alinsky taught, radical leaders should create division and disagreement even when none exists. **On this issue, I actually believe the sides are closer in the debate than is apparent.**

## Who Says What?

The Ds want to emphasize the fairness of “shared sacrifice.” In other words, they want a symbolic increase in taxes on the rich to advance their theme of “class warfare.” It must be just *symbolic*, because if you look at the numbers, there’s no way any material improvement in the national debt or deficit can be achieved by even **DOUBLING** the tax rates for the richest.



The Rs reject the D’s strategy because of the well known arguments about all the negatives of taxing capital and sidelining job-creating investment capital. That’s an accurate assessment. But, once again, is it material in terms of total dollars? The impact of any tax increase that could ever get through both houses of congress would not likely to amount to many dollars “in the overall scheme of things.” The Rs also seem to be seeking just a *symbolic* victory on this issue.

## **A Little Bit of Symbolism Goes a Long Way**

So it's some measure of *symbolism* all around, isn't it? Both the Ds and the Rs are seeking symbolic, rather than substantive, victories on this issue. At least that's the impression I get by examining this at the highest level of narrative.

If I look a little deeper however, I think the Ds are also motivated to avoid a factual discussion of using tax revenues to make a substantial contribution to the debt levels – i.e. they know that achieving any material impact would require taking a serious look at extensive broadening of the tax base through real tax reform (more people paying taxes). **They don't want (to admit) that.**

And the Rs have, for some reason, not strongly emphasized their (quietly) stated goal of raising additional revenue through meaning tax reform – broadening the tax base without raising rates on the richest among us (more people paying taxes). **Maybe that's too politically incorrect to pass muster.**

## **Set Certain Things Aside – For Now**

For this discussion I want to avoid extensive arguments about who pays taxes. We don't need to talk extensively about how much in taxes the rich pay. We don't need to talk like Warren Buffet who says the rich should pay more, and that people on his office staff pay higher tax rates than he does. We also don't need to spend much time talking about the large percentage of American families which don't pay any federal income taxes. Those concerns are introduced here, but not “beaten to death.” If those things have merit, they can be effectively addressed by tax reform and broadening the tax base.

## **Why Tax Reform?**

There are several reasons to support fundamental tax reform:

- In recent decades, fewer taxpayers are paying a higher percentage of revenues, and about half pay none at all.
- When the “tax-price” of government is zero for particular citizens (see prior item), there is a certainty that they will demand more and more governmental programs and services. (This from Heritage.)
- In the last two years, the ratio of revenues to GDP has decreased (yes!) due to the terrible economy (not due to the Bush tax cuts).
- The ratio of U.S. debt to GDP has recently skyrocketed.
- Entitlement spending has increased significantly as a ratio to GDP.

Also, remember that Obama's Deficit Reduction Commission insisted on the need for broadening the tax base.

## Fair and Meaningful Revenue Increases

- “Fair” means that all citizens above the poverty level should pay **something** in the federal tax system. That would add many more taxpayers since approximately 50% of families now pay nothing.
- I’ll concede a bit and accept the argument that “fair” means that the wealthiest among us will be subject to somewhat higher tax rates.
- “Meaningful” means that investment capital be left largely intact – or such reform would stifle incentive and job creation in our economy.
- **“Meaningful” means that any additional revenue created be applied to reducing the national debt.**
- “Meaningful” also means that any revenue increases are material in amount – i.e. they must make a significant contribution to the goal of budget balancing and debt reduction.

## Quite Simply

I’ll say it now ... and will probably say it again in the future – tax reform, in a nutshell, should center around a “graduated flat tax” – something like this:

- Eliminate all deductions in establishing taxable income for individuals.
- Establish a fair and uncontroversial definition of earnings/income.
- Establish individual tax rate categories for all above an objective “poverty level.”
- Rate and income categories are **TBD**, but rates would be something like this – 5%, 10%, and 15%.
- Rates would apply to **ALL** earnings/income.
- Eliminate all double taxation.
- Establish corporate tax rates which are comparable to other industrial countries (i.e. low).

The concept of “fairness” necessarily brings personal values into the decision. Therefore I would try to eliminate such flexibility from the considerations. There are many unanswered questions here, and I haven’t included all necessary considerations – but you get the picture.

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**So much for now – at least until the next time I once again find it necessary to repeat myself!**